WPS 1513

POLICY RESEARCH WORKING PAPER 1513

The World Trade Organization, the European Union, and the Arab World

Trade Policy Priorities and Pitfalls

Bernard Hoekman

A preference for gradual trade liberalization has led to partial and slow reform, lack of credibility, and a weak private sector supply response in many countries in the Middle East and North Africa. The creation of the World Trade Organization and the offer of the European Union to establish a Euro-Mediterranean Economic Area could help make the strategy of gradual reform more credible. But neither option is a panacea, and much depends on government willingness to exploit the opportunities imbedded in these institutional options. Both options should be pursued simultaneously to limit any negative trade diversion effects from a preferential agreement with the European Union.

The World Bank
Europe and Central Asia, and Middle East and North Africa
Technical Department
Private Sector Development Division
September 1995

Summary findings

The countries of the Middle East and North Africa (MENA) have lost the geographic advantage they used to have because of their proximity to the European Union at a time when Eastern Europe was effectively closed to open exchange with the West. The Central and Eastern European countries are beginning to exploit their own proximity, together with relatively low wages and significant stocks of human capital, and are formidable competitors with MENA.

To compete, the MENA countries must implement more far-reaching liberalization, privatization, and deregulation. It has been a basic tenet in MENA countries that economic reform must be gradual to avoid causing social disruption. This has often meant little effort publicizing reform and mobilizing political support. Partial and slow reform has led to uncertainty in firms and households and a lack of credibility.

The slower the pace of reform and the less comprehensive its scope, the greater the gap between MENA's performance and the rest of the world is likely to become. Without a significant private sector supply response and inward foreign direct investment, political support for reform will be limited, and a vicious circle may result.

The creation of the World Trade Organization (WTO) and the offer of the European Union to establish a Euro-Mediterranean Economic Area provide possible institutional frameworks to make a gradual reform strategy more credible. Full participation in the WTO could move the trade regime closer to "good practices," improve trade institutions, help lock in trade reform, make trade policy implementation more transparent, diminish bureaucratic red tape, and force firms to go through GATT-sanctioned mechanisms for temporary safeguard protection.

An agreement with the European Union to establish a free trade and investment area could offset some of the WTO's regulatory and administrative loopholes, could (by providing financial transfers) overcome resistance to reform, and could ensure investors that MENA governments are committed to far-reaching integration with the European Union.

But neither option is a panacea. Both should be pursued simultaneously.

This paper — a product of the Private Sector Development Division, Europe and Central Asia, and Middle East and North Africa Technical Department — is a background paper prepared for the study *Claiming the Future: Choosing Prosperity in the Middle East and North Africa* (World Bank, forthcoming). Copies of this paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Faten Hatab, room H8-087, telephone 202-473-5835, fax 202-477-8772, Internet address bhoekman@worldbank.org. September 1995. (43 pages)

The WTO, the EU and the Arab World:
Trade Policy Priorities and Pitfalls*

Bernard Hoekman
The World Bank and CEPR

JEL: F13
Keywords: trade liberalization, trade policy, regional integration

* I am grateful to Ishac Diwan, Hamid Mohtadi, Nemat Shafik, David Tarr and Subidey Togan for comments and suggestions, and to Ying Lin for excellent research assistance. Correspondence to Room H8-085, The World Bank, 1818 H St. N.W. Washington D.C. 20433.

Summary

The longer term economic potential of the Middle East and North Africa (MENA) region has improved significantly in recent years as a result of the progress made in the peace process. The challenge facing governments is to adopt policies that will allow this potential to be realized by fostering private sector development and encouraging export-led growth. Many of the countries in the region have been pursuing attempts to reduce the economic role of the state and shift away from traditional import substitution/infant industry protection strategies. While some progress has been made, the pace of trade policy reform has varied substantially across countries. In many economies an anti-export bias continues to exist. This is most vividly illustrated if the recent export growth of the MENA countries is compared to that of the Central and Eastern European countries (CEECs) and South-east Asian economies such as China or Malaysia. Trade data reveal clearly that the CEECs are well on the way to exploiting their geographic proximity to the EU, which in conjunction with their relatively low wages and significant stocks of human capital makes them formidable competitors for the MENA region. The geographic advantage that the MENA region used to have--because Eastern Europe was effectively closed to open exchange with the West--has now disappeared. MENA must now compete head-to-head with the CEECs. This is indeed a challenge, as relative labor costs in the CEECs and MENA are not that different and Eastern Europe is able to exploit sub-contracting of manufacturing products for export to the European Union to a much greater degree than MENA countries.

The major policy issue facing the MENA region as a whole is to implement much more far-reaching liberalization, privatization and deregulation than has been done up to the present. A basic tenet of economic reform efforts in many of the countries of the region has been that this must not lead to social disruption. The consequence has been an insistence that reform be *gradual*. This has sometimes been complemented by a strategy of *non-transparency*; little effort being devoted to publicizing reform efforts and mobilizing political support. The result has been uncertainty on the part of firms and households, and a lack of credibility. There is a trade-off between political feasibility of rapid reform efforts and the opportunity costs of gradualism. The slower the pace of reform and the less comprehensive its scope, the larger the gap between MENA's performance and that of the rest of the world is likely to become. The absence of a significant private sector supply response and inward foreign direct investment will in turn limit political support for reform. A vicious circle may result. What is needed is an institutional framework that enhances the credibility of a gradual reform strategy. The creation of the WTO and the EU offer to establish a Euro-Mediterranean Economic Area are very relevant in this regard.

The WTO offers an opportunity to adopt better trade policies and improve trade institutions. Many countries in the region were not GATT contracting parties, and are therefore not Members of the WTO (which entered into force in January 1995). Whether or not a GATT contracting party, all countries in the region will be affected by the liberalization of markets agreed to in the Uruguay round. Existing GATT members will also be confronted with a substantial number of policy and institutional changes that are required under the WTO (e.g., on customs valuation, product standards, services and intellectual property protection). Membership of the WTO can do much to move trade regimes closer towards 'good practices'. It provides a cheap and effective mechanism to lock in trade policy reforms and improve the transparency of policy implementation. By adopting and abiding by the rules of the game for the administration of trade laws and policies, current problems associated with bureaucratic red tape can diminish significantly. By binding tariffs at applied levels, the scope

for domestic firms to lobby directly for an increase in a specific tariff is greatly reduced, if not eliminated. This will force firms to go through the GATT-sanctioned mechanisms for temporary safeguard protection. If well-designed these will not encourage direct rent seeking expenditures or constitute a disincentive for firms to undertake the investment and adjustment efforts needed to enhance their productivity.

A problem associated with the WTO is that its loopholes may substantially reduce the potential beneficial 'credibility effect'. An agreement with the EU to establish a free trade and investment area can help to offset many of the WTO's weaknesses with respect to regulatory regimes and administrative practices. It can also help overcome existing resistance to reform through the provision of financial transfers. Most importantly, an EU link can provide assurances to investors that although progress towards complete liberalization of trade will be gradual--as determined by the negotiated transition period-- MENA governments are committed to far-reaching integration with the EU. Although the EU offers a more binding and more credible road map than the WTO, an agreement with the EU is not a panacea. It is particularly important that trade and other barriers to competition that affect non-EU firms are reduced substantially in order to limit the potential trade diversion costs of a preferential agreement with the EU. Governments are strongly encouraged to reduce tariffs and other barriers to trade against the rest of the world at the same time, and at the same pace, as barriers are reduced vis-a-vis EU suppliers. The additional adjustment costs of doing so are limited, while the potential gains from liberalization will be greatly enhanced.

1. Introduction

The longer term economic potential of the Middle East and North Africa (MENA) region has improved significantly in recent years as the peace process expands opportunities for investment and intra-regional trade and cooperation. The challenge facing many governments is to adopt policies that will allow this potential to be realized by fostering private sector development and encouraging export-led growth. Many of the countries in the region have been pursuing attempts to reduce the economic role of the state and shift away from traditional import substitution/infant industry protection strategies. While some progress has been made, the pace of trade policy reform has varied substantially across countries. In many economies an anti-export bias continues to exist. The gradual and tentative nature of reform has also led to credibility problems in some countries, limiting private sector supply response.

Within the MENA region[1] a distinction must be made between North African countries such as Morocco and Tunisia, Middle Eastern countries such as Egypt or Jordan, and the Arab peninsula. Morocco and Tunisia have made more progress in reform than other countries in the region. This is reflected in the growth of non-traditional exports. The share of phosphates and olive oil in total exports of Morocco and Tunisia, respectively, declined from around 45 percent in 1980 to less than 20 percent in 1992 (World Bank, 1994). However, the region as a whole has been lagging behind ongoing global policy developments in the trade and investment area. This is most vividly illustrated if the recent export performance of the MENA countries is compared to that of the Central and Eastern European countries. The major policy issue facing the MENA region as a whole is to implement much more far-reaching liberalization, privatization and deregulation than has been done up to the present.

The creation of the WTO with its three constituent elements--a revised and significantly expanded GATT, a new General Agreement on Trade in Services (GATS), and a new agreement on

[1] MENA incorporates Morocco, Tunisia, Algeria, Libya, Egypt, Jordan, Israel, Lebanon, Syria, Iraq, Kuwait, Saudi Arabia, Yemen, Oman, UAE, Bahrain, and Qatar. It does not include Turkey, Iran and African countries such Mauritania, Somalia, and Sudan. Iraq and Libya are not captured in the analysis that follows due to lack of data.

Trade-related Intellectual Property Rights (TRIPs)--increases the challenge facing governments. The implementation of the Uruguay Round agreements will confront the MENA countries with greater competition on third markets. At the same time, the WTO offers an opportunity to adopt better trade policies and improve trade institutions. Many countries in the region were not GATT contracting parties, and are therefore not Members of the WTO (which entered into force in January 1995). They include Algeria, Iraq, Jordan, Lebanon, Libya, Saudi Arabia, Syria, and Yemen. Non-membership of the WTO is likely to make it more difficult to attract the foreign direct investment (FDI) and technological know-how needed to diversify production and compete on world markets. Algeria, Jordan and Saudi Arabia were at the time of writing involved in accession talks. Bahrain, Egypt, Israel, Kuwait, Morocco, Qatar, Tunisia, and the UAE were GATT members by the end of the Uruguay Round. Whether or not a GATT contracting party, all countries in the region will be affected by the liberalization of trade agreed to in the Uruguay round. Existing GATT members will also be confronted with a substantial number of policy and institutional changes that are required under the WTO (e.g., on customs valuation, product standards, services and intellectual property protection).

This paper discusses the trade policy status quo in the region, the need for change, and the possible role of external institutions in facilitating reform. Section 2 starts with a brief discussion of current trade policy in MENA countries. Section 3 goes on to use trade data to illustrate how the policy stances have inhibited private investment in export-oriented production by comparing MENA's recent export performance with that of the Central and Eastern European countries (CEECs). Section 4 discusses the economic impact of the Uruguay round, the policy and institutional implications of the WTO, and what Membership can do to move trade regimes closer towards 'good practices'. An important element supporting the export growth of the CEECs has been the Association Agreements negotiated with the European Union (EU) in 1992. Similar agreements are being negotiated by Egypt, Jordan, Morocco, Tunisia and Israel. The Commission of the European Communities has proposed that these become part of a wider Europe-Mediterranean Economic Area. This offers a window of opportunity to pursue further reforms in a setting that could help governments to overcome existing credibility problems. Section 5 describes the main elements of a likely Association Agreement with the EU, and discusses how such an agreement could help overcome some of the constraints on adoption of more market and private sector-friendly regulatory regimes in the region. Section 6 concludes.

2. Current Trade Policies in MENA

Aspects of the trade regime that inhibit the competitiveness of firms located in many MENA countries include relatively high average rates of effective protection, substantial dispersion of such protection across industries and nontransparent implementation of trade policies. High tariffs and associated 'red tape' constitute a tax on export production, both directly by raising input costs and indirectly by putting pressure on the real exchange rate, thereby reducing the competitiveness of firms on world markets. High levels of effective protection also provide local firms with a disincentive to attempt to penetrate world markets, as profit rates are often higher on sheltered home markets. One result has been a somewhat dualistic economic structure, with export-oriented firms having few linkages with the rest of the economy, and most firms continuing to concentrate on the local market. Export production in the highly protected environment would require well-functioning duty drawback and temporary admission mechanisms. These are generally not available.

Agricultural trade tends to be significantly distorted in many countries in the region. A well known example is Saudi Arabia, which has pursued a policy of large scale subsidization and import protection to support domestic production of cereals and oilseeds. Wheat production rose from 3,000 tons in the mid 1970s to more than 4 million tons in 1992, making it more than self-sufficient. Over half of wheat production is exported. For wheat alone direct subsidies are some $2.5 billion per year (Goldin and Kherallah, 1995). Subsidization of agriculture is much less significant in other MENA countries, but many governments intervene through import quotas, licensing or bans on specific products, high average tariffs for "sensitive" commodities, state monopolies for imports and distribution in conjunction with price controls, and input subsidies (including charges for water and energy that often do not reflect scarcity values).

There are often numerous tariff bands in the tariff schedules of MENA countries. Jordan, for example, has 33 different rates, ranging from 0 to 320 percent. In Egypt, rates generally range from 0 to 70 percent, although tariffs on motor vehicles may rise to 160 percent. Tariffs in Morocco and Tunisia are lower, in the former country ranging from 0-35 percent, and in the latter varying between 10-43 percent. Annex Table 1 compares average unweighted tariffs for a number of MENA countries with those of countries in other parts of the world that have pursued liberalization programs since the mid-1980s. Average rates for the four MENA countries reported are in the 25-30 percent range, and have declined less than in many comparator countries in other regions. While lower than the average rate in the reported South Asian countries, they are substantially higher than the average tariff that is now applied in many Latin American countries. Moreover, they have been declining more slowly. This is perhaps the most important conclusion to be drawn, as levels of nominal tariffs are of course difficult to compare across countries.

Table 1 reports data on collected tariff revenue as a share of imports. This is more revealing than the average statutory rate, as it better reflects the actual tax burden on trade by allowing for the existence of exemptions and possible biases in customs classification and valuation. The unweighted average burden in MENA countries is about 17 percent, abstracting from the countries in the Gulf region who pursue a zero or low tariff policy (Bahrain, Oman, UAE). This is more than 3 times higher than the average for the seven comparator countries listed.

The converse of the high tariff burden is that import duties account for a much higher share of government revenue in MENA countries than in countries that pursue a more outward-oriented economic strategy. The average share of revenue generated by trade taxes (excluding stamp duties) in the sample of MENA countries is 20 percent, that for the comparators only 6 percent. Alternative, less distorting sources of revenue must be developed in the context of further efforts to liberalize trade flows. The expected weakness of oil-related revenues in the medium term--given sluggish demand and the anticipated increase in supply following the recovery/re-entry of producers such as Iraq and Russia (World Bank, 1995)--may perversely induce a greater reliance on trade taxes. This should be resisted, priority instead being given to increasing indirect taxes, broadening the tax base, and reducing subsidies (especially those that encourage environmental degradation and inefficient use of scarce resources).

Table 1: Trade Taxes in MENA Countries, 1993

	Share of Import Duties in Total Government Revenue	Share of "Other" Taxes in Total Import Tax Revenue	Average Collected Tariff (revenue/ imports)
Morocco	17.7	52	17.5
Tunisia	28.3	46	18.7
Egypt	10.0	8	14.9
Jordan	35.9	40	17.8
Syria	10.0	25	16.4
Oman	3.2	--	3.0
UAE	--	--	--
Yemen	20.2	3	19.1+
Bahrain	9.2	--	4.0
Israel	1.0	--	1.2
Turkey	4.4	78	2.5
Mexico (1990)	5.1	--	4.8
Chile	9.9	--	9.7
Indonesia	5.2	--	4.9
Malaysia	13.6	31	4.9
Korea	4.8	--	4.4

Notes: -- zero or negligible; * Excludes stamp duties; + Valued at the average parallel market exchange rate, the average collection rate was around 8 percent. The nominal rate of 19% is indicative of the Government's intentions, however.

Source: IMF Government Finance Statistics Yearbook, 1994; International Financial Statistics, 1994.

Effective rates of protection of manufacturing generally exceed the level of nominal protection by a substantial margin. In addition to the nominal tariffs, imports are often also subject to a variety of additional taxes. In the case of Jordan, these include a 5% import license fee, a tax earmarked for universities (4%), another tax for municipalities (2%), an additional consolidated fee of 6%, a customs service fee of 0.2%, and a surcharge of either 3% on non-zero rated goods or 5% if no tariffs are applied. In Yemen, over ten additional taxes and surcharges were imposed on imports. Morocco imposes a 'special import levy' of 15 percent on most goods (capital goods face a 10 percent levy); Tunisia levies surcharges varying between 10 and 30 percent on a range of products that compete with domestic production; Egypt imposes a one percent statistical tax, a 'service fee' of 2 percent for goods subject to import duties of less than 30 percent, a 5 percent fee for other products, as well a number of stamp duties. Such additional fees on imports reduce the transparency of the tariff structure, especially as they may not be applied to all products. Table 1 illustrates the importance of "other" taxes on trade in the MENA region.

The use of quantitative restrictions has been declining. In Morocco, the production coverage of quantitative restrictions has fallen to zero, down from 50 percent in the mid 1980s; in Tunisia only 20 percent of local production benefited from such barriers in 1994, down from 94 percent in the mid 1980s (Lahouel, 1995). Egypt has also eliminated most import quotas. Nontariff barriers to imports remain prevalent, however. Many industrial products, including processed foodstuffs, are subject to licensing requirements related to the enforcement of health and safety standards. These licenses tend to be granted by the relevant Ministry (e.g., Health for pharmaceuticals, Agriculture for food, Telecommunications for telecommunications equipment, Interior for chemicals). More generally, all imported products may require an import license (e.g., Jordan, Yemen). Import licenses for products subject to mandatory standards are often only granted once products have been approved by the relevant Ministry/agency. Such approval often requires inspection of the goods at Customs, imposing costs on importers, delaying customs clearance and subjecting importers to unnecessary uncertainty.

Nonrecognition of internationally known certification bodies or international standards--as is the case in Jordan and Egypt for example--raises costs for importers and consumers, and reduces the incentives for enterprises to employ the services of certification entities and increase their awareness of the importance of quality standards in international trade. Current practices and procedures have led to claims that standards are being used as technical barriers to trade. Quality control (inspection) by the General Organization for Export and Import Control (GOEIC) in Egypt is illustrative. It inspects a sample of every consignment of goods entering Egypt that is on a list of products subject to quality control. Some 1,500 tariff lines (25 percent of the tariff schedule) is subject to quality control. Internationally recommended methods of testing and certification are allegedly ignored, and internationally recognized quality and certification marks (such as that of the European Union) may not be accepted. Even if international standards have been adopted as the basis for domestic product standards, the relevant criteria for ascertaining whether they have been met may not be clearly defined in the appropriate regulations or statutes.

Administrative procedures and requirements associated with importing more generally are often burdensome, increasing the cost of imports substantially, and thereby lowering the competitiveness of MENA firms on world markets. Many government bodies can be involved in the import process, either collecting taxes or import duties, or authorizing the release of imports. Examples of the bodies involved in Egypt include Customs, the Ministry of Health (pharmaceutical and medical devices), the Ministry of Supply (wheat), the General Organization for Veterinary Services (Ministry of Agriculture), the General Organization for Plant Protection and Quarantine (Ministry of Agriculture), the Atomic Energy Organization, the Industrial Control Authority (Ministry of Industry), and the General Organization for Export and Import Control.

Customs clearance is frequently cumbersome. In Lebanon, 18 signatures are required before goods can be released. A customs broker, once all customs forms and acccompanying documentation are obtained (delivery order, packaging list, origin certificate, copy of bill of lading) needs to get signatures from officials to: certify that goods are allowable for import; that the Israeli boycott is not violated; obtain a log book number; confirm that the foregoing three steps have been taken; identify a "verificateur" for the valuation of goods; comfirm conformity of documents (by verificateur and the chief controller); obtain an appointment for inspection of goods; select a sample, if necessary for valuation/classification; determine the calculation of the duties due by the auditor; confirmation of the assessment by the assistant Department Head; confirmation by the Port Authority that a payment order has been prepared; approval by a committee of the paperwork; receipt of payment by cashier; registry of payment; provide a receipt; guarantee the removal of the goods; and release of the container to the shipping agent or importer (World Bank, 1995b). In other countries in the region, procedures can be substantially more complicated, insofar as import licensing is required and product standards are enforced.

The many administrative controls can delay customs clearance by anything from a few days to several weeks. Valuation procedures in particular give rise to substantial uncertainty on the part of importers, as Customs generally expects underinvoicing. Customs officials in Jordan, for example, rely on price lists and declared values of 'bona fide' importers of particular goods to determine the value of goods. In Morocco, reference prices are used to protect local production. If importers are found to have engaged in underinvoicing, fines can be imposed that are a multiple of the tariff that applies, and may be a multiple of the value of the goods concerned. Customs officials in a number of countries is allowed to keep between 20 and 40 percent of the additional revenue thus generated, creating an incentive to find underinvoicing.

An important factor raising the costs of exporters in MENA countries are the level of port service fees for handling and storage of goods, and the quality of the services provided. The companies that provide port services such as loading and unloading of containers on ships, handling of containers, storage and warehousing tend to be public monopolies. The cost per tone of handling a container in the port of Alexandria is reported to be some two to three times the price incurred in other ports around the Mediterranean. Egyptian exporters interviewed by a recent Bank team indicated that the additional costs associated with the high fees charged by these companies raise costs by over 10 percent. A lack of competition is also reported to prevail with respect to insurance premia charged for trade coverage, which are higher than those confronting Egypt's competitors on world markets. Such costs reduce the competitiveness of Egyptian firms by raising prices and reducing profits. In contrast to tariffs on intermediate inputs, the extra costs associated with customs clearance, quality control, customs valuation, and the monopoly service providers in the ports cannot be recovered through a duty drawback and similar schemes. They constitute, therefore, a major disadvantage for firms seeking to produce for export, and are a major disincentive for foreign firms that might be interested in investing in export-oriented production. Similar observations apply to many other countries in the region.

Many of the constraints to export development that are embedded in the trade policy system reflect the legacy of the 'ancien regime' which involved large scale public sector participation in and control of the economy. Some of the government organizations that impose a significant transactions costs on traders had a mandate to control trade in the past. Structural reform programs incrementally whittled away the responsibilities of many of these agencies of 'control'. They often continue to exist, however, and have been creative in attempting to continue to pursue their traditional role. One explanation for the increased profile given to the enforcement of product standards and phyto-sanitary requirements in the trade regime of some of the MENA countries (e.g., Egypt) is that this legitimizes the continuation of the activities of 'control' agencies.

Many MENA countries have concluded preferential trade agreements with one another. Trade flows covered by these agreements benefit from complete or partial exemptions from tariffs. The agreements pertain mostly to agricultural and raw materials. If industrial products are concerned, there is often a minimum local value added criterion of 40 percent. Many of these agreements were negotiated in the 1960s and 1970s. However, some are recent. A 1992 agreement between Lebanon and Jordan is illustrative. It exempts animals, agricultural produce, fruits and vegetables from all customs duties and other taxes (i.e., surcharges). A positive list of industrial products is subject to a preferential tariff rate (two-thirds of the regular rate), but remain subject to all surcharges. A total of US $5 million of goods may enter duty and surcharge free for purposes of exhibitions. The agreement also specifies that sales taxes will be levied on a national treatment basis. Given their nature, these protocol agreements are unlikely to benefit the countries involved. As many MENA countries have similar factor endowments, the scope for intra-industry trade is limited unless industries start to specialize and compete on world markets. The partial coverage of the agreements prevents rather than stimulates trade flows between Arab states.

The foregoing is not to say that no progress has been made since the late 1980s in trade liberalization. Many countries have implemented reforms that reduce anti-export bias. But much remains to be done, especially because competitor countries are moving faster. The efforts undertaken in many MENA countries in recent years provides a good basis on which to move further towards integration into the world economy. The trade-off in this regard is between the apparent political infeasibility of rapid reform efforts and the opportunity costs of gradualism. The slower the pace of reform and the less comprehensive its scope, the larger will be the gap between MENA and the rest of the world is likely to become. Greater gaps can also be expected between the 'first movers' in MENA such as Morocco or Tunisia and 'followers' such as Egypt or Jordan. Unilateral reform efforts in the latter countries have so far been inadequate to induce a significant private sector supply response or inward flows of foreign direct investment (as opposed to short-term liquid capital). This is a major problem, as a supply response is crucial in terms of generating support for reform and inducing governments to continue reform efforts.

The MENA region has a window of opportunity in the next few years to implement further structural reforms. Two developments are of particular importance in this connection. First, the external environment is expected to be relatively good in the coming years, with most major markets predicted to show substantial growth. Recovery of economic activity will increase global demand for MENA output, especially oil. The establishment of peace in the region should also do much to attract the potential interest of investors. What is needed is an institutional framework that enhances the credibility of a gradual reform strategy by establishing a longer term, credible 'vision' of future economic policies and relationships in the region. The second development, the creation of the WTO and the EU offer to establish a Euro-Mediterranean Economic Area is very relevant in this regard.

The problems constraining export-led growth in MENA countries are as much institutional in nature as policy-specific. Changes in policy--while desirable and necessary--must therefore be complemented by a reduction in, and strengthening of, implementing institutions. Reductions in the regulatory and administrative burdens confronting the private sector can be achieved relatively rapidly at low cost. The faster they are achieved the better firms will be able to handle the reductions in protection as they are implemented. Significant up front improvements in administration of regulations and elimination of 'harassment' opportunities will also help to enhance the credibility of the Government. Given the frequency with which the issue of the cost and quality of support services is mentioned by exporters as reducing their ability to compete on world markets, priority should also be given to enhancing the efficiency of the service sector. This will require liberalization of access to service markets by foreign providers, as well as privatization and demonopolization. The faster this can be done, and the more far-reaching the market opening, the better domestic firms will be able to handle import competition and diversify into world markets.

3. Trade Performance and Reform: Comparing the CEECs and MENA

A basic tenet of economic reform efforts in many of the countries of the region is that this must not lead to social disruption. The consequence has been an insistence that reform be *gradual*. This has sometimes been complemented by a strategy of *non-transparency*; little effort being devoted to publicizing reform efforts and mobilizing political support. The result has been uncertainty on the part of firms and households, and a lack of credibility. Traders in economies such as Egypt or Jordan often report their perception that 'little has changed' with respect to trade policy and administration (e.g., customs clearance). Insofar as a 'fear of reform' exists, the key need is to ensure that adjustment costs are relatively short-term and manageable, and to convince important interest groups that these costs will be greatly offset by longer term benefits. Compensation schemes may be required during the transition for certain groups. The experience of the Central and Eastern European countries (CEECs) with their reform efforts are of interest in this connection. They suggest that far-reaching reforms can have a dramatic impact on economic performance by inducing a reorientation and restructuring of production and trade to create and exploit competitive advantages, in the process generating private sector employment opportunities and fostering growth.

This Section briefly describes recent developments in trade with the European Union, with a view to explore the possible impact of a significant reduction in protection. The data show that most of the CEECs have been successful in reorienting and greatly expanding exports to the EU. While this is a somewhat "unfair" comparison, given the greater level of industrialization and human capital that existed in Eastern Europe, the parallels between the two regions are close enough that a comparison is informative. Many countries in both regions start reforms in the late 1980s; the level of state intervention in MENA, while not as high as in the CEECs was quite significant; and both were directly affected by the collapse of CMEA-based trade. One noteworthy difference between the region is that the CEECs that were GATT members were constrained in their ability to raise tariffs, having bound these at low levels upon accession (tariffs were not relevant in the centralized trade context). Once central planning was abolished, CEEC governments started out with very low tariffs and were constrained in their ability to raise them by GATT compensation requirements.[2] This turned out to be an advantage, facilitating the negotiation of an Association Agreement with the EU (see below), and illustrating one of the main potential benefits of GATT membership.

Data on per capita exports of MENA countries, to the world and to the EU, reveal that

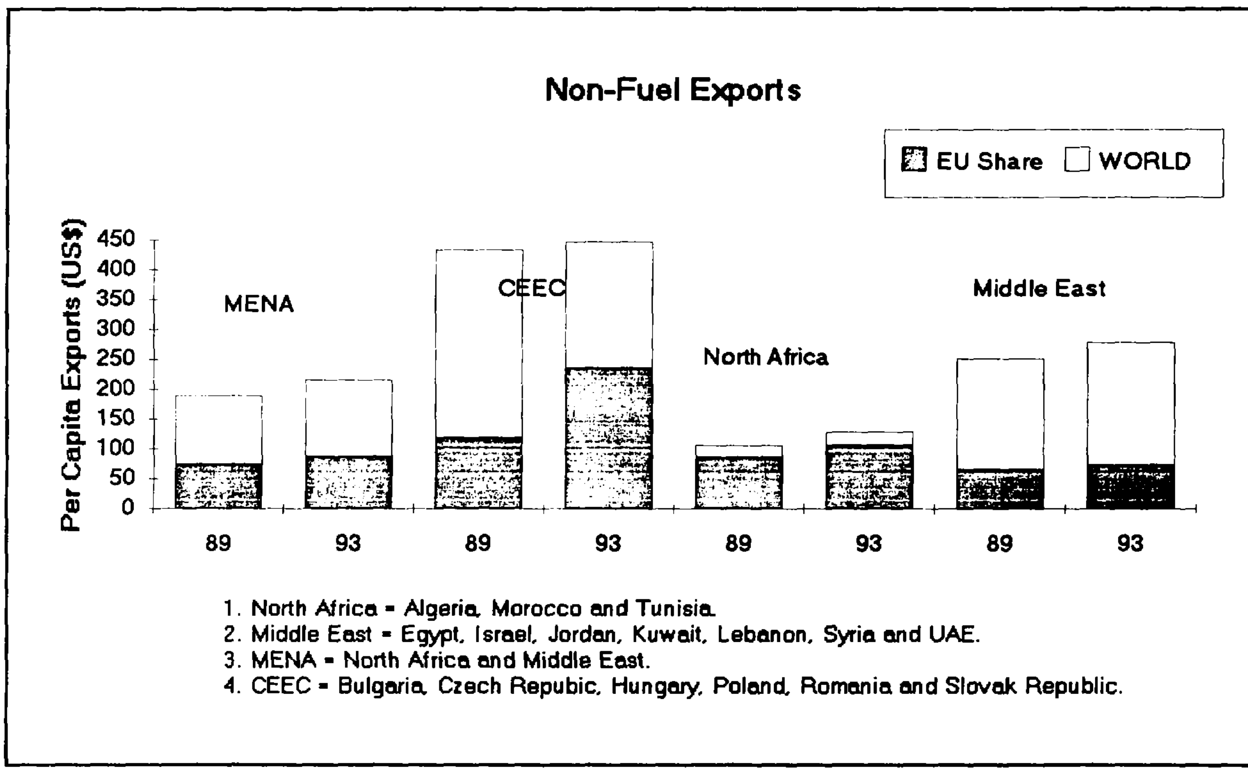

Figure 1

MENA countries have not been very dynamic in terms of non-oil, non-traditional exports. Per capita

[2] As a result, several countries used import surcharges during the initial adjustment process. Such temporary surcharges are permitted under GATT, but are subject to conditions (demonstration that measures are necessary to deal with a balance of payments problem) and surveillance.

exports for the region as a whole are around US $200, and have risen slightly in recent years (Figure 1). The share of exports going to the EU did not increase in the 1989-93 period, however. MENA exports to the EU are largely due to North Africa, which exports most of its manufactured goods to Europe. For the Middle Eastern countries the EU is much less important, except for Israel (Figure 2). If MENA is compared to the CEECs, it can be seen that although aggregate exports of the CEECs to the world stagnated between 1989 and 1993--reflecting a large drop in output and exports as enterprises adjusted to price liberalization and the demise of the CMEA--the Eastern European countries managed to re-orient their trade quite substantially. Whereas some 29 percent of CEEC exports went to the EU in 1989, the proportion had risen to 52 percent in 1993. The average annual growth rate of exports to the EU (18.7 percent) compares starkly with the 2.5 percent growth performance of MENA countries.

Figure 2 presents data on per capita exports of non-oil/gas products by country. Noteworthy is the export performance of Israel, which is approaching the $3,000 per capita mark. This compares

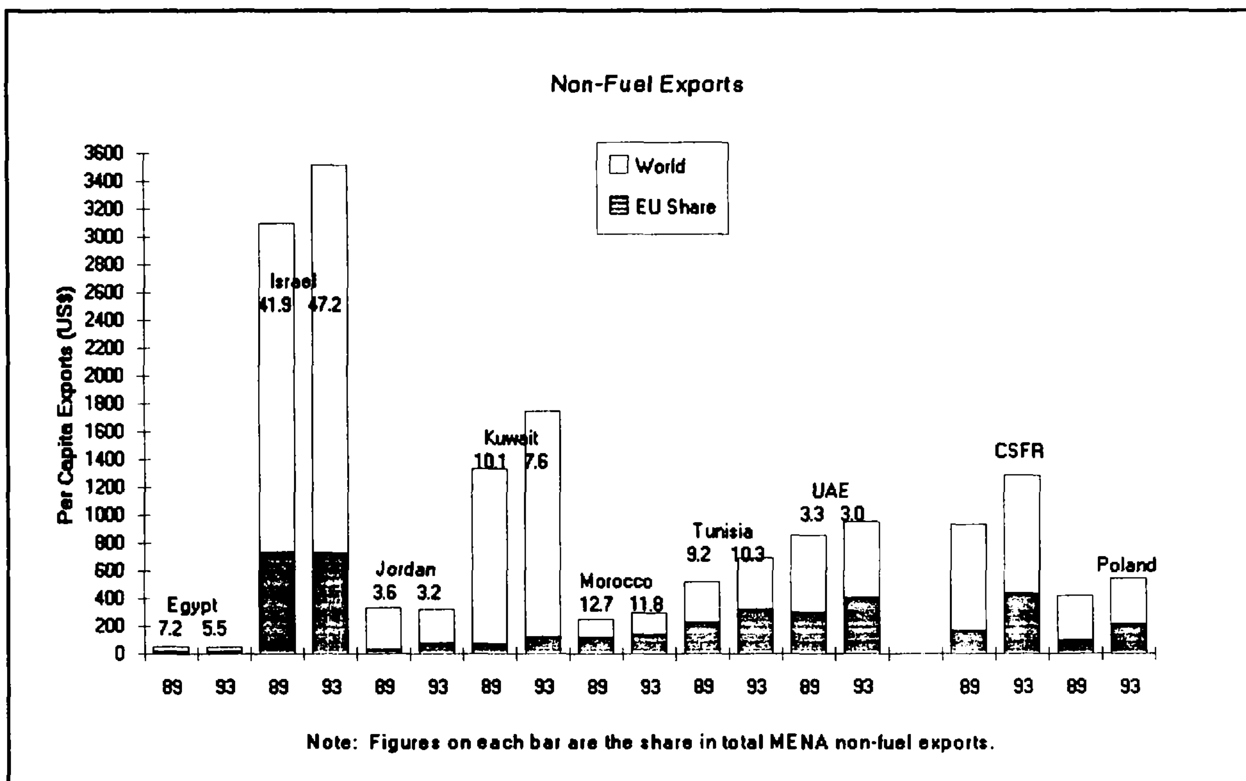

Figure 2

to some $500 per capita on average for the CEECs, $1,000 for the Czech Republic, and exports in the $150-250 range for Morocco, Syria, and Lebanon; $400 for Tunisia, and $550 for the UAE. Kuwait has the highest per capita exports of manufactures in the region after Israel--mostly petrochemicals. Algeria and Egypt have very low per capita export figures; the former less than $20, the latter $30. Per capita exports of non-oil products to the world over 1989-93 have been falling for Egypt (minus 3.5 percent per year), Jordan (minus 5 percent), Syria and the UAE (minus 1 and 0.5 percent, respectively). Exports to the EU declined for Algeria, Egypt, and Lebanon.

Table 2: Non-Oil Exports to EU, 1989 and 1993 (ECU million)

Country	Value		Market Share		Growth Rate
	1989	1993	1989	1993	
MENA	9,940	12,010	2.68	2.83	4.8
Jordan	86	268	0.02	0.06	32.9
Lebanon	100	66	0.03	0.02	-10.0
Syria	90	177	0.02	0.04	18.5
Israel	3,014	3,282	0.81	0.77	2.1
Egypt	790	790	0.21	0.19	0.0
Morocco	2,612	3,135	0.70	0.74	4.7
Tunisia	1,596	2,343	0.43	0.55	10.1
Algeria	219	151	0,06	0.04	-8.86
Saudi Arabia	890	1,057	0.24	0.25	4.4
Kuwait	131	149	0.04	0.04	3.3
U.A.E.	414	593	0.11	0.14	9.4
CEEC	10,336	19,145	2.79	4.51	16.7

Source: EUROSTAT.

Total non-oil/gas exports by the CEECs to the EU rose by 16.7 per cent per year on average between 1989 and 1993, from ECU 10 billion in 1989 to 19 billion in 1993 (Table 2). In this period, total EU imports rose by only 2.1 per cent per year, while world trade increased by 3.7 per cent per year. The CEECs therefore substantially increased their market share in the EU. For the six countries that have signed Association Agreements--Bulgaria, the Czech Republic, Hungary, Poland, Romania and the Slovak Republic--total import penetration rose from 2.8 per cent in 1989 to 4.5 per cent in 1993. Individual country market share growth was often substantially higher. Both Poland and the Czech and Slovak Republics doubled their share of the EU market.

Some 65 percent of MENA's market share in the EU is oil- and natural resource-related, mostly reflecting exports by Algeria, Syria, Kuwait and Saudi Arabia (oil and related natural resource exports account for 90-95 percent of total shipments to the EU for these countries). Agricultural produce represents another 6 percent of total MENA exports to the EU. Other (manufactured) products therefore account for less than one-third of total exports to the EU. Textiles and clothing account for the lion's share of manufactured exports (12.1 percent of the total). MENA's share of non-oil exports to the EU is very small, standing at only 2.8 percent in 1993 (Table 2). While it has been more dynamic than total exports in recent years--reflecting the decline/stagnation in oil prices--the comparison with the export performance of the CEECs remains very striking.[3] In 1989 the CEECs and MENA exported about the same amount of manufactured goods to the EU. By 1993, CEEC exports had almost doubled, in the process substantially increasing their share of the EU market. MENA's share of the EU market, in contrast, has remained constant.

Jordan appears to be the best performer, but this is largely a reflection of what appears to be a one-off sale of assets: virtually all the increase occurs in 1993, and consists of "exports" of aircraft--a return of two leased Airbusses--and gold. Tunisia, Morocco and Israel--the three MENA countries closest to concluding an Association Agreement with the EU--are the largest exporters of manufactures to the EU, with Tunisia having the best growth performance in recent yhears. Much of the growth of exports of manufactures consists of textiles and clothing in MENA exports to the EU (Annex Table 2). For countries such as Morocco, Tunisia, Lebanon, and the UAE, this is a very

[3] The aggregate exports--oil and non-oil--of oil/gas-dependent countries such Algeria, Egypt, Kuwait and the UAE to the EU fell between 1989 and 1993.

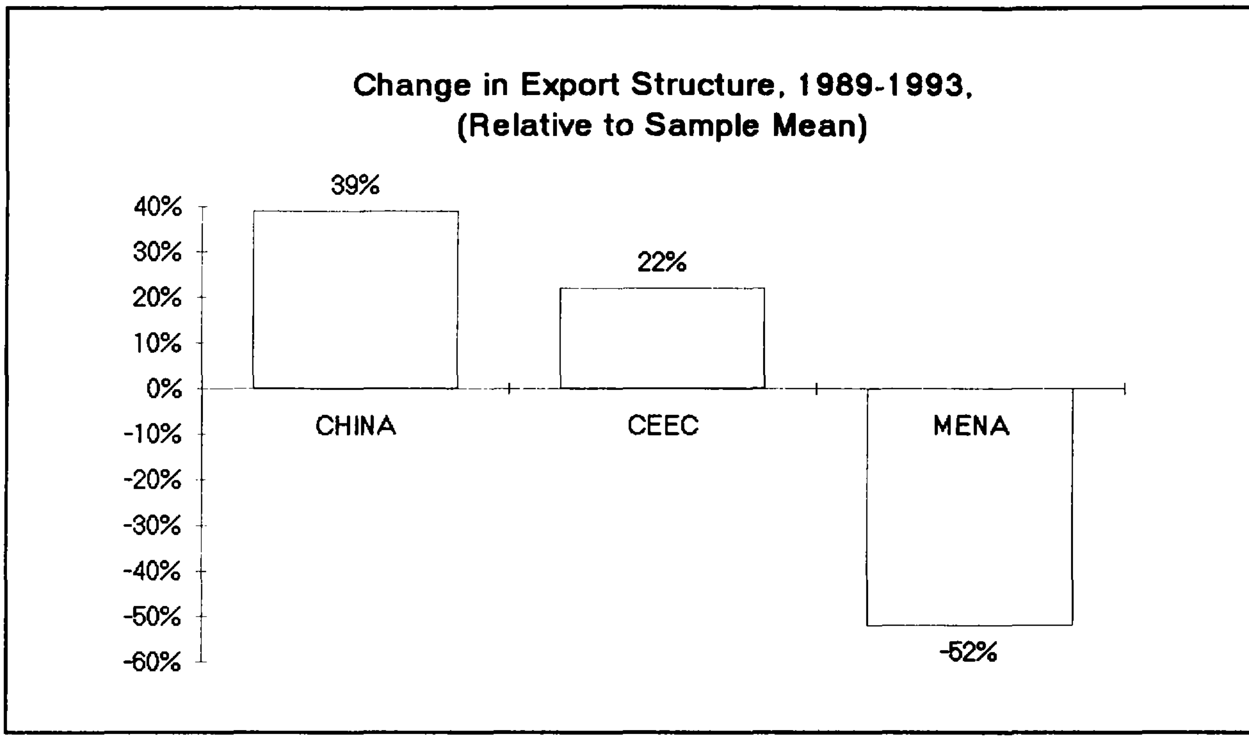

Figure 3

important sector. The same applies for Turkey, which is revealed as a serious competitor for MENA. Noteworthy is the growth in the relative importance of garments for the UAE. Much of this is likely to reflect a transhipment activity induced by MFA quotas on East and South Asian countries. For the region as a whole, garments account for 12 percent of total exports, as compared to 16.6 percent for the CEECs as a group. Of the CEECs, Poland is the largest exporter of clothing, shipping about the same amount as Morocco and Tunisia (however, this represents only 17 percent of its total exports to the EU).

A measure of total change in the structure of exports to the EU is summarized in Figure 3.[4] The relative changes in the magnitude of exports of specific commodities are much higher on average for the CEECs than for other countries. All the CEECs register values that are above 1, implying above average change. While not as high as China, the CEECs reveal substantially more 'dynamism' than MENA. On average, about three time more 'change' occurred in the CEECs exports to the EU than in that of MENA. Another revealing indicator of differences across countries is the change in trade structure as reflected in changes of the relative importance of commodities over time. Table 3 reports data on the change in the relative importance of "traditional" products in exports to the EU over 1989-93. Traditional products are defined as product categories accounting for at least ECU 3 million of exports to the EU in 1989. The first two columns of Table 3 compare the value and share of such items in 1989 with the value and share of these same items in 1993. There is a wide variance between MENA countries. Algeria and Syria basically show no change: the products that accounted for the lion's share of exports in 1989 were the same in 1993. Algeria, Egypt and Saudi Arabia are in the same category, although here there is some diversification. Major changes occur in Israel, Jordan, Lebanon, Morocco, Tunisia and the UAE. Of these countries, Jordan is best disregarded as the data are heavily influenced by one-time exports of gold and aircraft. In Israel, Morocco, Tunisia and the UAE, products that in 1989 accounted for between 70 and 90 percent of exports, contributed only 50 to 60 percent of total exports in 1993. The converse of this is that exports of products that were less than ECU 3 million in 1989 expanded rapidly, registering growth rates varying from 20 to 40 percent per year.

---

[4] The measure used is:

$$\frac{\sum_{i=1}^{K} |a_{it} - a_{it-1}|}{\sum_{i=1}^{K} a_{it-1}}$$

where a_j is the value of exports of an 8-digit tariff line item at point t and t-1, respectively, and K is the number of commodities exported. This measure treats increases and decreases symmetrically. It is intended to give an impression of 'how much' change occurred in exports. For ease of comparison, the figures are expressed as a function of the mean change in trade structure for the sample of countries.

Table 3: Share of 'Traditional' Products in Total Exports to EU, 1989-93 (ECU million and percentage)*

	8 Digit Products >=3 million ECU in 1989			8 Digit Products < 3 million ECU in 1989		
	1989	1993	Gr. Rate	1989	1993	Gr. Rate
Algeria	4821 98.35%	4052 89.50%	-4.25%	81 1.65%	476 10.50%	55.60%
Egypt	2259 92.67%	1809 81.68%	-5.41%	179 7.33%	406 18.32%	22.76%
Israel	2268 74.72%	1804 53.79%	-5.56%	767 25.28%	1550 46.21%	19.21%
Jordan	44 49.14%	62 23.28%	9.06%	46 50.86%	206 76.72%	45.69%
Kuwait	2661 97.94%	1713 95.33%	-10.42%	56 2.06%	84 4.67%	10.67%
Lebanon	37 36.76%	12 18.52%	-23.96%	63 63.24%	54 81.48%	-3.84%
Morocco	2202 82.53%	2008 62.85%	-2.28%	466 17.47%	1187 37.15%	26.32%
S. Arabia	6246 97.88%	8204 89.69%	7.05%	136 2.12%	943 10.31%	62.41%
Syria	735 95.08%	1559 94.39%	20.68%	38 4.92%	93 5.61%	24.91%
Tunisia	1617 81.80%	1473 59.24%	-2.30%	360 18.20%	1013 40.76%	29.56%
U A E.	1397 92.27%	391 47.16%	-27.25%	117 7.73%	438 52.84%	39.13%
MENA	25083 94.31%	24795 83.95%	-0.29%	1513 5.69%	4742 16.05%	33.06%
CEEC	9827 82.14%	11706 58.44%	4.47%	2136 17.86%	8325 41.56%	40.5%

* Percentages are the share of a country's total exports in a given year.

Source: Calculated from the COMEXT database.

While a number of countries in the region have therefore shown dynamism in terms of diversifying their export base, they are lagging behind the CEECs. The relative importance of new products (defined as commodities that were not exported in 1989 but were shipped in 1993) and "expired" products (those that were exported in 1989, but had disappeared in 1993) is about half that of the CEECs. Information on the number of commodities sold to the EU gives a similar picture. The CEECs greatly expanded the number of 8-digit tariff line items exported to the EU. The Czech and Slovak Republic stands out in particular in this regard, increasing the number of lines exported from 3,915 (or 41.6 percent of all the goods imported by the EU) in 1989 to 6,001 in 1993 (61.5 percent of all lines imported). All the CEECs expand the diversity of their exports to the EU significantly. MENA countries, in contrast, tended to expand the number of tariff lines exported to the EU during this four year period by only a few percentage points. Moreover, the absolute number of items exported to the EU by countries such as Israel or Turkey in 1993 was significantly less than that of the CEECs, whereas it was about the same in 1989. One conclusion suggested by this development is that much of the trade that is occurring between the EU and the CEECs is intra-industry.

Intra-industry trade has been expanding very rapidly between the CEECs and the EU (Figure 4). Given the importance of natural resource exports, for MENA as a whole, intra-industry trade is quite low and relatively constant over time. It is significant only for Israel, followed by Tunisia. There is therefore great scope for fostering such trade by liberalizing access to markets. Intra-industry trade is important because it is one mechanism through which transfers of technology can occur. To stay within the context of trade with the EU, the Europe Agreements with the CEECs have created incentives for EU suppliers/retailers to engage in so-called outward processing trade (OPT). This consists of shipping components or assemblies to a CEEC where further processing occurs. The processed good is then exported back to the EU supplier/retailer. Such processing trade benefits from liberal access to the EU, and has been used intensively for sectors such as garments, electrical machinery and furniture. As part of the subcontracting that is involved, EU counterparts will often provide designs, monitor quality, take care of marketing, etc. This is a good way for firms in partner countries to reduce the costs and risks associated with development of export markets, while at the same time obtaining know-how from suppliers. OPT is frequently restricted, at least in the initial stages, to labor intensive, low value added activities. These can, however, create significant employment.

In the period following the implementation of the agreements with the CEECs, exports after outward processing accounted for about 18 percent of total CEEC exports to the EU in 1993, up from 10 percent in 1989. For Romania, processing activities generated 30 percent of exports to the EU in 1993. In contrast, exports to the EU of processed goods represented only 1.7 percent of total MENA exports in 1993, a share that has remained constant since 1989 (Table 4). Most of the processing occurs in leather/footwear, clothing, electrical machinery, precision instruments and furniture. OPT

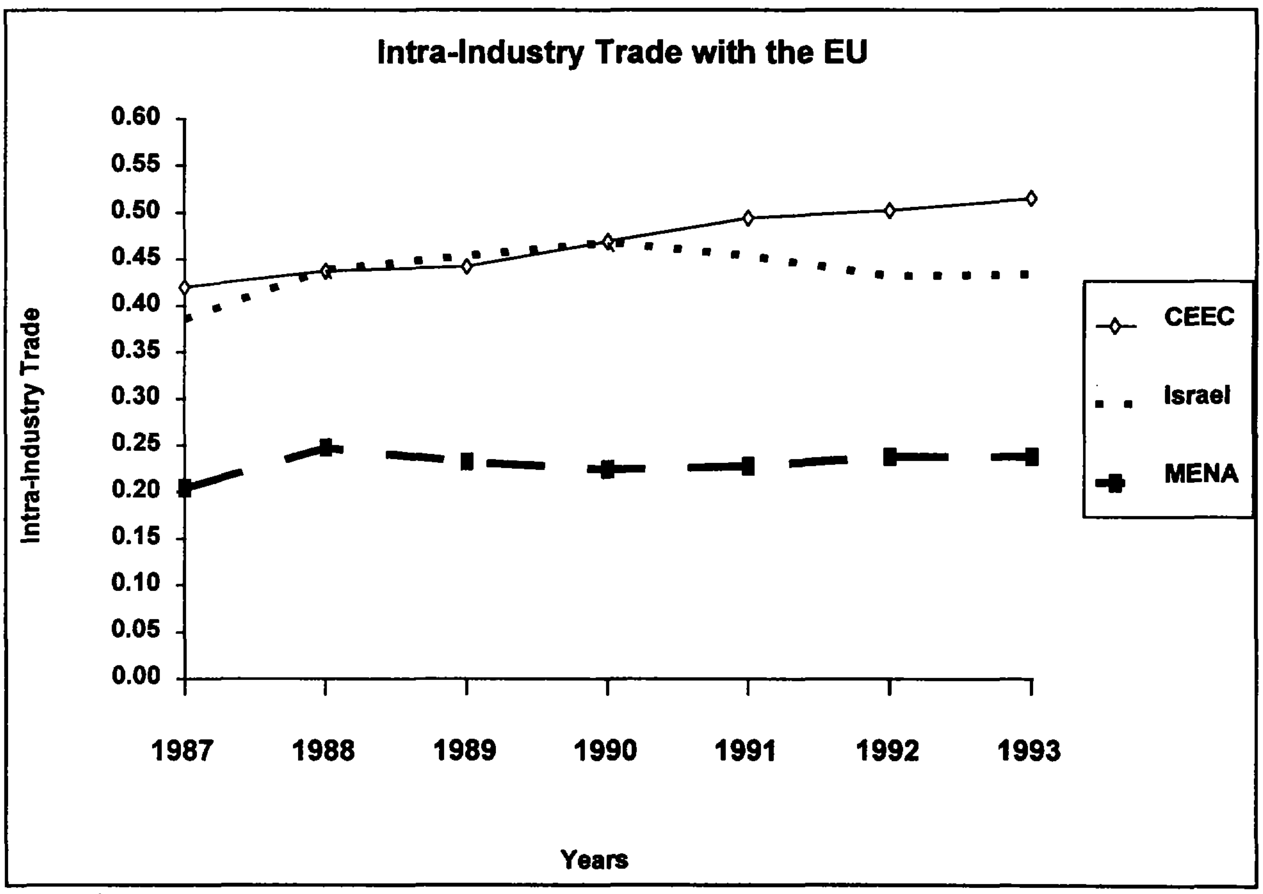

Figure 4

accounts for a very substantial share of the growth in exports from the CEECs to the EU (Table 5). In contrast, it plays a very minor role in MENA, the two exceptions being Morocco and Tunisia.

Table 4: Exports After Outward Processing (Share in Total exports to EU)

	CEEC		MENA	
	1989	**1993**	**1989**	**1993**
Total	10.4	17.9	1.6	1.7
Leather	38.9	34.5	8.0	8.5
Garments	60.8	74.5	15.6	11.1
Machinery	8.1	14.4	5.4	2.6
Transport	12.3	4.7	4.5	2.3
Instruments	6.4	11.9	6.5	2.5
Furniture	26.5	13.9	1.2	1.5

Source: EUROSTAT, COMEXT database.

Table 5: Exports to EU Under Outward Processing Regime

	Total 1993 (ECU million)	**Share of OPT in absolute increase in exports to EU, 1989-1993 (%)**
6 CEECs	3,600	26
MENA	500	4

Source: EUROSTAT, COMEXT database.

The data reveal clearly that the CEECs are well on the way to exploiting their geographic proximity to the EU, which in conjunction with their relatively low wages and significant stocks of human capital makes them formidable competitors for the MENA region. The geographic advantage that the MENA region used to have--because Eastern Europe was effectively closed to open exchange with the West--has now disappeared. MENA must now compete head-to-head with the CEECs. This is indeed a challenge, not least because relative labor costs in the CEECs and MENA are not that different. Per capita incomes in the CEECs--one proxy for such costs--are close to MENA levels (Table 6). The fact that Eastern Europe is able to exploit sub-contracting of manufacturing products for export to the European Union in a much greater degree than most MENA countries is relevant here. Under just-in-time management practices, the availability of adequate service links (transport, harbor services, customs operations, telecommunications ...) is fundamental for the decision on where to outsource. Many MENA countries (particularly those around the Mediterranean) can become competitive locations for outsourcing by European companies once access to efficient producer services is made available. This requires significant changes in regulatory regimes and investment policies to enhance the contestability of markets.

Table 6: Per Capita Incomes Relative to Germany

Country	Value 1992	Relative to Germany (%)
Egypt	650	2.8
Morocco	1,050	4.6
Jordan	1,130	4.9
Tunisia	1,760	7.6
Algeria	1,850	8.0
Saudi Arabia	7,640	33.2
Israel	13,460	58.4
United Arab Emirates	22,640	98.3
Turkey	2,040	8.9
Romania	1,170	5.1
Bulgaria	1,410	6.1
Poland	1,950	8.4
China	480	2.1

Source: World Bank, World Development Report, 1994.

4. The Uruguay Round: WTO Rules and Disciplines

The economic substance of the direction of the required changes in trade policies and institutions is clear; the question is how to create a constituency that favors reforms and makes them politically feasible and self-sustaining. Although the primary constraint in this connection is clearly the existence (or rather the absence) of internal support, external institutional mechanisms can be helpful. Two options that can be pursued are stronger linkages with the EU and "deep integration" into the WTO.

The implications of the WTO and the liberalization package agreed to under the Uruguay round can be divided into two parts: (1) the impact on the world economy through induced changes in demand and supply of goods and services; and (2) the impact on trade policies and institutions in Member countries. It is beyond the scope of this paper to assess quantitatively the impact of the Uruguay round and full implementation of the WTO agreements on the MENA region. This is a difficult exercise in any event, as many of the agreements cannot be quantified. Much of the WTO relates to transparency, to improved enforcement of obligations, to rules of procedure. Numerical simulations of the impact of the Uruguay round can cover only aspects that can be quantified. The most important of these are agricultural liberalization, reduction in tariffs for industrial products and the integration of textiles and clothing.

The most comprehensive and detailed evaluation of the Uruguay round using a computable general equilibrium model and that distinguishes the MENA region is Harrison, Rutherford and Tarr (1995).[5] They find that the impact effect on MENA may be negative, reflecting the erosion of rents created by the MFA and the likely rise in global food prices following reduction in export subsidies in OECD countries. In the "steady state", however, once capital stocks have adjusted, the region is predicted to benefit from the global liberalization, increasing aggregate welfare by up to $1.3 billion per year (this does not take into account possible adjustment costs). A key finding from the Harrison et al. study, as well as many other CGE efforts, is that the impact of the Round is relatively small, and that very much depends on the policy stance that is maintained by governments. Given the high average rates of protection that will continue to exist in many MENA countries after the Uruguay round outcome is fully implemented, most of the potential gains that can be realized will come from further liberalization of domestic, not foreign, markets. The commitments made by the MENA countries in the Uruguay Round illustrate that much remains to be done in this regard.

[5] See Goldin and Kherallah (1994) and Kirmani (1994) for qualitative discussions of agriculture and textiles and clothing.

Turning to the Uruguay round's impact on trade policies and institutions, the WTO itself does not embody substantive rules regarding government policies--it is simply a formal institutional structure under whose auspices Members negotiate and implement trade agreements. The rules are contained in the treaties it oversees (GATT, GATS, TRIPs).

GATT-1994 Disciplines

Both policy and institutional changes are likely to be necessary in many MENA countries to fulfill WTO obligations. Major implications include the following (Hoekman, 1995a):

- Trade policies and their implementation must be *nondiscriminatory*. This encompasses the most-favored-nation (MFN) and national treatment principles. MFN requires nondiscrimination between all foreign products; national treatment requires that foreign products be treated identically to local competing products as far as internal indirect taxation and equivalent measures are concerned.
- The use of *quantitative restrictions* is heavily circumscribed. The web of bilateral quantitative restrictions (QRs) imposed under the MFA will gradually be eliminated. While largely an issue affecting OECD countries, some countries in the MENA region -- e.g., Egypt -- maintain quantitative import restrictions for textiles and clothing, and will thus be affected. QRs on agricultural imports are prohibited; in principle WTO Members may only use tariffs to restrict imports of agricultural products, and all such tariffs are bound.[6]
- Governments must reduce support granted to agricultural production, and export subsidies, if any. Developing countries have been granted some flexibility in this connection, e.g., input subsidies are permitted as are export subsidies related to marketing services.
- Developing countries that have a per capita GNP above U.S. $1,000 become subject to GATT's *prohibition on export subsidies for industrial products*.

[6] Quantitative import restrictions, variable import levies, minimum import prices, discretionary import licensing, non-tariff measures maintained through state trading enterprises, voluntary export restraints and similar border measures are explicitly prohibited (Agreement on Agriculture, Article 4).

- Developing country WTO members must *eliminate all trade-related investment measures* (TRIMs) such as local content requirements, export performance rules, etc., that violate GATT's national treatment principle or its prohibition on QRs before 2000..

- If trade measures are imposed for balance-of-payments purposes, WTO rules require that price-based measures such as tariffs be used in principle.

- The basis for *customs valuation* is to be the importer's invoice. However, developing countries that were not party to the 1979 (Tokyo round) Agreement on customs valuation may delay implementation of the Agreement until 2000. Specific conditions are required to be satisfied for rejection of the invoice by customs in determining the magnitude of duties to be paid. Developing countries which currently value goods on the basis of officially established minimum values may request a reservation to enable them to retain such values on a limited and transitional basis, subject to the terms and conditions required by the other WTO members.

- The WTO's rules relating to *product standards and sanitary/phyto-sanitary measures* require that new regulations and conformity assessment procedures be based on international standards. An *enquiry point* must be created to answer questions regarding product standards and sanitary or phytosanitary measures; applicable control and inspection procedures, quarantine, pesticide tolerance and food additive approval procedures; and risk assessment methods used. Similar questions regarding *technical regulations and conformity assessment procedures* can be posed.

- There are many requirements concerning the procedures to be followed with respect to the *imposition of contingent protection* (safeguards, countervailing of subsidized imports, and antidumping). Space constraints prohibit even a summary, but the implications for the institutions that implement such mechanisms are significant.

GATS Disciplines

- MFN, national treatment and market access are the key policy elements of the GATS. MFN is in principle a general obligation. The sectoral coverage of national treatment and market access obligations is determined by country schedules. Six types of *market access restrictions* are in principle prohibited under GATS. These consist of limitations on: (i) the number of service suppliers allowed, (ii) the value of transactions or assets, (iii) the total quantity of service output, (iv) the number of natural persons that may be employed, (v) the type of legal entity through which a service supplier is permitted to supply a service (e.g., branches vs. subsidiaries for banking), and (vi) participation of foreign capital in terms of a maximum percentage limit of foreign shareholding or the absolute value of foreign investment. Each GATS Member decides (negotiates) which service sectors will be subject to market access and national treatment disciplines, and what measures will be kept in place *for that sector* that violate market access and/or national treatment, respectively.[7]

- At least annually, Members must inform the Council for Trade in Services of the introduction of new -- or changes to existing -- laws, regulations or administrative guidelines which significantly affect trade in services covered by their specific commitments (national treatment and market access).
- An enquiry point must be established to provide specific information to other Members on all relevant measures of general application which affect the operation of the GATS.
- Judicial, arbitral or administrative tribunals or procedures must exist which provide for prompt, objective and impartial review of administrative decisions affecting trade in services.
- Measures relating to qualification requirements and procedures, technical standards and licensing requirements may not unnecessarily restrict trade in services; should be based on objective and transparent criteria; and not be more burdensome than necessary to ensure service quality.

MENA Commitments

Countries that were GATT-1947 signatories are committed to the various obligations noted above. As far as tariffs are concerned, the main impact concerns the requirement under the Agreement on Agriculture to replace nontariff barriers with tariffs. On the industrial side, the main change is the requirement that a schedule of bound tariffs be presented, including not only tariffs, but also "other fees and charges". Post Uruguay Round bound tariff commitments for Egypt and Tunisia

[7] See Hoekman (1995b) for a more detailed discussion of the GATS.

are summarized in Table 7. The Table reveals that the difference between bound rates and currently applied rates are not great. However, as noted earlier, tariff levels in the region remain high, both absolutely--in terms of generating an anti-export bias--and relative to other parts of the developing world.

Table 7: Bound versus Applied Tariff Rates, Selected Countries

GATT Member	Post-Uruguay round bound average tariff rates (unweighted)		Current applied average tariff rates (unweighted)	
	Industry	Agriculture	Industry	Agriculture
Egypt	31	61	23	52
Tunisia	27	41	33	40

Source: Egyptian data are from Subramanian (1995); Tunisian data are from the WTO Integrated Database.

MENA countries did little to open their service markets in the Uruguay round. Commitments are only substantial in the area of hotel and restaurant services (that is tourism-related services), although in construction and financial services these countries as a group scheduled a higher than average (as compared to the developing country group) number of service activities in their offers (Hoekman and Primo-Braga, 1995). On average, the level and the degree of liberalization provided by the specific commitments of the Arab countries is less than that of developing countries in general. Overall, the immediate implications of the GATS agreement for domestic service providers in Arab countries are quite limited. If one focuses, for example, on Egypt--the Arab country with the highest level of "no restrictions" maintained on market access and national treatment (Table 8)--most offers consist of binding the regulatory status quo for the sectors scheduled. The qualifications are extensive and include limitations on the share of foreign personnel in foreign controlled enterprises (and even in the overall wage bill in the case of maritime transport), a maximum of 49 percent of foreign capital in several industries (construction and related engineering services, tourism projects in the Sinai region, insurance), economic needs tests in the case of tourism, opening of branches by foreign banks and insurance (e.g., new companies should be able to work without "harmful" competition to existing companies), restrictions on the operations of representative offices, etc.

Table 8: Sectoral Coverage of Specific Services Commitments (percent)

	High income Members	All Other Countries	Large Develop-ing Countries	Selected Arab Countries					
				Algeria	Bahrain	Egypt	Kuwait	Morocco	Tunisia
Average share of sectors listed	53.3	15.1	29.6	0.65	2.58	16.77	28.39	23.23	8.39
No restrictions maintained as a share of total possible	28.0	6.4	10.0	0.48	1.9	7.9	7.1	6.5	1.5

Source: Hoekman and Primo-Braga (1995).

TRIPs

Protection of intellectual property rights is important for a number of reasons, including attracting inward FDI. The TRIPs Agreement requires protection of *trademarks* (to last at least 7 years; equal treatment to be given to service and trade marks; prohibition on compulsory licensing), *geographical indications* (prohibition on indications that mislead or constitute 'unfair' competition), *industrial designs* and *layout designs of integrated circuits* (duration of protection at least ten years). In the area of *copyright*, Members are required to comply with the substantive provisions of the Berne convention (1971), with the exception of its obligations regarding the protection of moral rights, provide for rental rights and protection against unauthorized recording of live performances. Computer software is to be protected as a literary work under the Berne Convention. Copyright protection is to last for at least 50 years. As regards *patent protection*, all signatories must comply with the substantive provisions of the Paris Convention (1967). Patent protection is to be provided for almost all inventions, and is to be of at least 20 years duration after the date of filing.

IP laws must also be enforced, which requires that customs authorities apply--and the judicial system enforces--the laws. Enforcement and dispute settlement procedures are spelled out in some detail. Enforcement procedures under national laws must permit effective action against any act of infringement of IP rights. Signatories are to allow criminal procedures and penalties to be applied in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale, with penalties sufficiently large to constitute an effective deterrent. Developing countries have 5 years to implement the provisions of the TRIPs agreement, with the exception of its national treatment and MFN requirements. If a developing country must extend patent protection to areas of technology that are currently not protectable (e.g., pharmaceuticals or agricultural chemicals), the application of TRIPs disciplines to these areas may be delayed for another five years, bringing the total to ten.

Maximizing the Potential Benefits of WTO Membership

Implementing all the rules and principles of the WTO will help reduce the extent to which the trade policy regime distorts incentives. But WTO membership is not a panacea. Full consistency with WTO requirements is neither necessary nor sufficient to ensure good trade policy. A great need remains for careful institutional design. While adherence to WTO rules and principles can clearly be of great value to MENA governments in terms of increasing the credibility of trade policy reform, many of the WTO's disciplines are optional, either in the sense that members have discretion regarding the extent to which they apply (i.e., their coverage), or have a choice whether to invoke them. A useful distinction can be made between the possibilities that exist to opt out of disciplines that are 'good' in that abiding by them is likely to be efficiency and welfare enhancing, and the possibilities that exist for opting to use measures that are permitted, but are likely to be detrimental to efficiency and welfare (Hoekman, 1995a). Examples of the first category of 'options' are the magnitude and restrictiveness of tariff bindings, participation in the government procurement agreement, and the specific commitments made under the GATS. Examples of the second set of 'options' are the possibility of demanding 'special and differential' treatment; not binding tariffs at applied rates; the mandate to implement antidumping and countervailing duty legislation; the option of using trade barriers on balance of payments grounds; the possibility of negotiating free trade agreements that do not entail free trade; and the freedom to severely limit the extent to which service markets are opened to foreign competition.

The extent to which the WTO's 'options' are invoked can have a large impact on the incentive structure facing firms and consumers. Limiting the extent to which the 'bad' options are exercised and maximizing the extent to which the 'good' options are exploited is a matter for which each Member Government bears the primary responsibility. Indeed, there is some degree of asymmetry here, as the adoption of the 'good' options is subject to pressure from trading partners, whereas there is no such pressure with respect to the 'bad' ones. Autonomous decisions regarding the trade policy stance to be maintained remain extremely important in determining the credibility of reform efforts. Such credibility can be increased very substantially through membership of the WTO <u>if</u> the Government so desires. But this requires a conscious and autonomous decision to do so.

Actions that will enhance the credibility of the Government's trade policy stance include the following:

- Bind all tariffs at applied rates. If tariffs are lowered, they should be automatically bound at the new applied rate.

- Refrain from invoking GATT's traditional "special and differential" treatment provisions. Full application of the agreements on customs valuation, standards, trade-related investment measures, as well as participation in the government procurement agreement, and adherence to the general rules relating to regional integration will increase the relevance of the WTO.

- Design safeguard legislation in a way that minimizes the scope for easy re-imposition of protection and ensures that the economy-wide impact is considered before protection is imposed.

- Enhance the transparency of the policy formation process by giving an independent body the responsibility of evaluating the likely economic impact of proposed trade policies, and monitor their effects *ex post*. Such a body could advise the government on the effects of specific trade policy on competition and national welfare; and could be required to prepare and publish a regular, comprehensive report of the effects of trade and investment policies. The WTO's requirements concerning the Trade Policy Review Mechanism already imply that periodically a comprehensive description and analysis of the trade policy regime must be made. It makes good sense to build upon this requirement and institutionalize such a domestic monitoring capacity.

- Undertake efforts to minimize 'red tape' associated with regulatory and customs-related procedures. Administrative burdens raise costs for traders, and create uncertainty and the opportunities for rent-seeking. Mutual recognition of standards and testing/conformity assessment procedures can greatly facilitate trade. Reduction of the number of tariff bands and the number of documents (in principle a single administrative document should be used) can help speed up customs clearance and reduce uncertainty.

- Expand the scope of specific commitments on services under GATS auspices. As under the GATT, an important potential benefit of the GATS is the "anchor" effect. By binding its policies in the GATS, a government is in a better position to resist demands from influential interest groups to alter these policies in the future. The GATS imposes costs on "backsliding" -- i.e., adopting more restrictive policies for services that are bound -- by requiring countries to negotiate the withdrawal of specific commitments. In this context, even an offer to bind the status quo has a value to the extent that it improves the transparency of the regulatory regime and makes "backsliding" less likely. The lack of competition in services is an important factor underlying the difficulties of many firms in MENA countries to compete on world markets. This raises the costs of services such as finance, insurance, transport, handling and storage of goods, which are often much higher than in neighboring countries or nations with which MENA countries compete. Similarly, the quality of the services provided is generally lower. Port services such as loading and unloading of containers on ships, handling of containers, storage and warehousing are often in the hands of monopolies.

5. The Potential Role of an EU Agreement

As mentioned earlier, an important factor constraining policy reform in a number of MENA countries relates to the absence of political support for opening up the economy and a perception on the part of governments that rapid liberalization could give rise to social unrest. The latter in particular is reflected in a preference for cautious, gradual reform. The problem with such an approach is that it may be too slow, inducing the private sector to take a "wait and see" attitude. Ongoing developments in the external environment (globalization, the implementation of the Uruguay round, the coming on stream of the CEECs and the former Soviet Union, the rapid growth of Asian economies) suggest reform efforts must be accelerated. Closer relations with the EU may help overcome some of the political constraints that may have affected reform efforts in a number of the MENA countries.

The Commission of the European Communities has proposed to negotiate a Euro-Mediterranean Economic Area with the MENA countries. This would greatly expand the extent of cooperation between the EU and MENA, which currently is governed by cooperation agreements agreed to in the 1970s in conjunction with periodic financial protocols. The Commission has been authorized to negotiate agreements with the Maghreb countries and Israel covering institutionalization of political dialogue; free trade in industrial products; reciprocal liberalization of trade in agriculture and services; and expansion of the scope of technical, economic, social, cultural and financial cooperation. Negotiations with Egypt, Jordan, Morocco, and Israel are expected to be completed in 1995. An Agreement was initialled with Tunisia in April 1995, and agreement to establish a customs union with Turkey was reached in early 1995. The EU is also engaged in talks with the GCC on a FTA, but this appears to be conditional upon the GCC achieving a customs union (Zarrouk, 1995).

The basic objectives of the Euro-Med proposal are to achieve reciprocal free trade in manufactured goods by 2010; preferential and reciprocal access for agricultural products of interest to both parties; and free trade among the Mediterranean countries. This is to be achieved gradually. The Commission's Communication states that "in order to be able to enter progressively into free trade with the Union and to take on board a wide range of trade-related Community regulations (customs, standards, competition, intellectual property protection, liberalization of services, free capital movements, etc.) ... Mediterranean countries ... insist on four fundamental aspects ...: the need for long transitional mechanisms and secure safeguards; the need to obtain improved access for their agricultural exports; the need for increased financial flows ... [and] the possibility to count on the Community's help to accelerate the modernization of their social and economic systems."[8]

The EU has concluded Association Agreements (called "Europe Agreements") with Bulgaria, the Czech Republic, Hungary, Poland, Romania, and the Slovak Republic. A brief summary of their contents is helpful in understanding the possible content and implications of the Euro-Med proposal. At the time of writing it was still unclear what the content of agreements with Mediterranean countries would be, but they are likely to be similar to the Europe Agreements. The Europe Agreements are unlimited in duration, and are to be implemented over a ten year period, in two stages of five years each. They have four main elements: (1) free movement of goods; (2) movement of workers, establishment, and supply of services; (3) payments, capital, competition and approximation of laws; and (4) economic and financial cooperation.

Free Movement of Goods Reciprocal free trade in goods is a key objective of the agreements. Upon entry into force of the interim agreements (March 1992 for the Visegrad countries), the EU abolished tariffs on "non-sensitive" industrial products. Duties on "sensitive" products are to be reduced gradually over 2 to 4 years, depending on the product. For most MENA countries this is not an issue, as industrial exports are mostly unconstrained. The CEECs negotiated different transition schedules vis-à-vis imports from the EU. Poland committed itself to eliminate tariffs on about 30% of its imports from the EU in 1992, and to abolish the remainder over a seven year transition period.. An exception was made for motor vehicles, where liberalization will take 10 years. Hungary agreed to liberalize 12-13% of its imports during 1992-95, another 20% between 1995 and 1997, and the rest between 1995 and 2001, in steps of one-sixth per year. This suggests some flexibility over transition modalities. Reports on Tunisia's draft agreement suggest a 12 year transition, with 60 percent of imports to be liberalized within 5 years; the remainder over the subsequent 7 years; and a negative excluded products.

---

[8] "Strengthening the Mediterranean Policy of the European Union: Establishing a Euro-Mediterranean Partnership," Communication from the Commission to the Council and the Parliament, October 1994.

Quotas must be abolished by all partner countries upon entry into force of the agreements. Exceptions are allowed for a limited number of products during a transition period of up to 8 years. Major products in this category are motor vehicles. In general, quotas are maintained that increase annually during the transition. QRs on imports of textiles and clothing from eastern Europe were eased considerably in the early 1990s, partly in the context of the prolongation of the Fourth Multi-Fiber Agreement to 1992. During the negotiations of the association agreements quotas were expanded further by over 60% on average for the Visegrad countries in comparison to the 1991 MFA quota limits, and the number of restrained categories reduced. Quotas for outward-processing traffic were increased by a similar amount and duties eliminated on products falling within the categories listed in the annex to EU Regulation 636/82. Quotas are to expand by about 5% a year during 1992-97. Quota and duty-free trade in textiles and clothing is to become effective after a transition period of five years, that is, on January 1, 1997. A textiles quota dismantling protocol was to be negotiated after the conclusion of the Uruguay Round, the goal being to phase out quotas in half the time agreed to in the multilateral context.

For agricultural products under common market organizations, with the important exception of cereals, reductions of up to 75% of variable levies and tariffs will be granted, subject to tariff quotas growing at about 8% per year. The most frequent formula is a 60% reduction of variable levies and tariffs, phased-in with three annual steps of 20% each (e.g., for beef, poultry, lamb, pork and dairy products). For a number of products not covered by common market organizations (and subject to lower fixed tariffs), e.g., fruits and vegetables, duty or levy reductions of some 30% to 50% will be phased-in over a period of five years. Duty free quotas will expand by one-third to one-half by January 1996. The agreements provide for a review of the agricultural concessions granted by the EU, taking into account the results of the Uruguay Round and the eventual reform of the CAP. This is the main area where significant liberalization will not occur.

The CEECs may temporarily protect infant industries or sectors under economic restructuring, subject to a number of conditions (tariffs are not to exceed 25%, EU producers are to be given a margin of preference, quotas are not to exceed 15% of the total industrial imports from the EU, and actions may only be taken within three years of liberalization of market access and are not to last more than five years). In all such cases the Association Council is to be informed prior to action being taken, and such actions are conditional on the issue not being resolved in the Council.

Movement of Workers, Establishment, and Supply of Services Very little was agreed in terms of liberalizing movement of workers. The main EU-wide commitment is for national treatment of legally resident Central and East European workers, spouses and children with respect to working conditions, access to labor markets, and cumulation of social security benefits earned by nationals of associated countries in different EU member countries. EU member countries will grant free entry and national treatment to all investment from associated countries, except in air and inland water transport and maritime cabotage. Associated countries will also grant free entry and national treatment to EU firms, but have been granted phase-in periods for certain sectors or activities. For industrial and commercial sectors undergoing restructuring programs, of an 'infant industry' nature, or facing elimination or a drastic reduction in total market share, temporary entry restrictions and policies violating national treatment can be introduced by CEECs during the first 5 years of the transition period. In devising and applying such measures, preferential treatment should be granted, if possible, to EU firms.

The Europe Agreements require free mobility of capital and unrestricted repatriation of profits and initial capital of firms that establish in partner countries. Payment flows (current account transactions) resulting from liberalization commitments under the agreements are also to be unrestricted. Full convertibility and liberalization of capital account transactions are longer term objectives, although no time frame is mentioned for their realization. Associated countries are committed not to introduce new foreign exchange restrictions after the fifth year, but remain free to apply restrictions on outward investment by nationals. More generally, the EU is to help establish a legal framework favoring foreign direct investment and ensuring investor protection. Cross-border supply of services is to be liberalized progressively. No time frame is established for the liberalization of supply of services, nor is the achievement of freedom of supply of services mentioned explicitly as an ultimate objective.

Competition Policy and Approximation of Laws The Agreements require the basic competition rules of the EU to be adopted by the associated countries. These pertain to collusive behavior, abuse of dominant position, public undertakings and competition-distorting state aid (Articles 85, 86, 90 and 92 of the EEC Treaty), insofar as they affect trade between the Community and each CEEC. Until implementing rules are adopted by the Association Council, GATT rules with respect to countervailing of subsidies apply. State-aid, compatible with EU rules for disadvantaged regions (Article 92.3(a) Treaty of Rome), can be applied to the entire territories of the associated states during the first five years. The agreements also provide for enhanced transparency of state aids, each party agreeing to provide annual reports on the total amount and distribution of the aid given.[9]

Associated countries agreed to pursue gradual harmonization of their legal systems with EU laws. Areas mentioned include customs, company, and banking law, accounting and corporate tax laws, intellectual property rights, workers' safety, financial services, competition policy, consumer protection, indirect taxation, plant and animal health standards, food legislation, and other technical, safety and environmental standards.[10] Economic and technical assistance will cover virtually every aspect of economic policy, including industry, agriculture, mining, energy, defense industry restructuring, transport, tourism, financial services, investment promotion, industrial standards and conformity assessment, water management, telecommunications, postal services and broadcasting, monetary policy, money laundering, regional development, social cooperation, small and medium-sized enterprises, information and communications, drug policies, and public administration (see also approximation of laws above). Collaboration will also extend to education and training, research and development and cultural matters.

---

[9] State aids to agriculture and fisheries are excluded from competition policy disciplines (Articles 42-43 EEC apply), and separate rules are to be implemented by the Association council within three years for the steel sector. The latter are to be based upon Articles 65-66 of the Treaty of Paris (ECSC), and make allowance for state aids permitted under ECSC auspices.

[10] On standards, objectives are to seek greater compliance with EU technical regulations/standards for products, promote the use of EU standards and conformity assessment procedures, achieve agreement on mutual recognition in these fields, and encourage CEEC participation in the work of EU standards-writing bodies.

Implications for MENA

A key benefit of negotiating an agreement with the EU along the foregoing lines is that it provides a policy blueprint to which a MENA government can credibly commit itself. Credibility results both from the formal nature of a treaty, and the availability of financial and technical assistance from the EU to help implement the agreement. The Commission has proposed to increase its financial assistance to the region to ECU 5.5 billion for 1995-99, complemented by another ECU 5.5 billion from the European Investment Bank. Although it remains to be seen what levels of assistance will finally be approved by the Council, there is a recognition in Brussels that greater financial flows will be required to help future partner countries implement Association Agreements.

Not much should be expected of the EU in terms of significant immediate improvement in market access for products that are sensitive. As far as clothing is concerned, MENA countries currently have almost quota free access. Access to EU agricultural markets will be difficult to improve significantly in the short run. The CEEC experience in this domain illustrates that obtaining better access will run into strong opposition by vested interests in the EU. Improved access to EU markets is in any event not the main benefit. The main potential pay off of an agreement with the EU comes from the reduction in barriers to imports and inward foreign direct investment in both goods and service sectors in partner countries. The CEECs agreed to allow establishment by EU-based firms in virtually all sectors of economic activity. Although transitional arrangements and temporary exceptions were negotiated, the number of sectors excluded indefinitely are very limited (largely restricted to agricultural land, natural resources and historical monuments). The arguments in favor of such an all-encompassing approach, with a very short negative list of exceptions, are very strong. In many sectors--both goods and services--establishment is the most direct method of enhancing competition and efficiency.

Adoption of EU policies and regulations in the areas noted previously will have major implications for MENA countries. Adoption of internal EU practices makes practical sense as this will help attract investment, facilitate exports and enhance competition on domestic markets. The increasing trend towards more stringent product standards and regulations that are applied on an EU-wide basis enhances the 'export pay-off' of harmonizing domestic product standards as much as possible with those of the EU. The same applies regarding the use of EU customs procedures and documentation. Care must be taken that the adoption of regulations/directives does not conflict with a country's comparative advantage, however, specifically as regards environmental and social policies.

An important caveat concerns the potential costs of trade diversion that an FTA with the EU could entail. If external tariffs on products originating in the rest of world are not lowered concurrently, a FTA may have large opportunity costs (Rutherford et al., 1993). As noted earlier, the best strategy in this connection is if an EU-link is used as part of broader effort to liberalize trade and investment regimes. Insofar as credibility problems exist, a FTA with the EU may do more to convince the private sector that planned reform efforts will be implemented than unilateral efforts. A supporting policy in this connection should also be to critically review the rationale for existing regional agreements within the Arab world. As noted in Section 2, many MENA countries have concluded preferential trade agreements with one another. These agreements should be either abolished or converted into full-fledged FTAs.

6. Concluding Remarks

Despite the progress that has been made in recent years to reform policies, on average the MENA region remains more inward oriented than many other parts of the world. Anti-export biases are strong, reflecting not only tariff policies but also the regulatory burdens and administrative red tape that confronts businesses. State intervention in the economy often remains pervasive. Only by allowing greater competition on domestic markets--through reduction of barriers to imports and exports and by allowing foreign direct investment to occur--will the countries in the region be able to achieve sustainable real growth. So far it has proven difficult for a number of countries in the region to implement far-reaching reform of trade and investment policies. External developments suggest that in the foreseeable future many--if not most--of MENA' comparator/competitor countries will be more open, more private sector-friendly and more dynamic. The CEECs illustrate the challenge--not just in terms of being competitors, but also in terms of what must be done. Similar efforts are well underway in Latin America and Asia.

There are two key issues for MENA Governments as far as trade policy is concerned: (i) adopting a trade policy regime that fosters integration into the world economy; and (2) establishing a set of institutions that make this trade policy stance a credible one. Without the latter, little may emerge from a trade liberalization effort in terms of private sector supply response. An important benefit of both the WTO and the EU option in this connection are their potential role as a commitment device. The GATT/WTO provides a cheap and effective mechanism to lock in trade policy reforms and improve the transparency of policy implementation. By adopting and abiding by the rules of the game for the administration of trade laws and policies, current problems associated with bureaucratic red tape can diminish significantly. By binding tariffs at applied levels, the scope for domestic firms to lobby directly for an increase in a specific tariff is greatly reduced, if not eliminated. This will force firms to go through the GATT-sanctioned mechanisms for temporary safeguard protection. If well-designed these will not encourage direct rent seeking expenditures or constitute a disincentive for firms to undertake the investment and adjustment efforts needed to enhance their productivity.

A problem associated with the WTO is that its loopholes may substantially reduce the potential beneficial 'credibility effect'. Developing countries are permitted to bind only a portion of their tariffs under GATT, often maximum or 'ceiling' rates that exceed applied rates. Developing countries also 'benefit' from special and differential treatment, which usually implies an exemption from certain rules or principles. Investment policies in general (as opposed to TRIMs) are not covered by the WTO. GATT allows for antidumping, a policy for which the economic justification is almost nonexistent, which in turn reduces the relevance of GATT rules with respect to safeguard actions. It is weak on preferential rules of origin, and allows trade restrictions to be imposed for balance of payments reasons rather than encouraging the use of alternative macroeconomic instruments. Disciplines on public procurement practices only apply to those countries that want to be subject to them.

An agreement with the EU to establish a free trade and investment area may help to offset many of the WTO's weaknesses and also help overcome existing resistance to reform. An EU link can provide assurances to investors that although progress will be somewhat slower (more gradual) than in Eastern Europe, MENA governments are committed to far-reaching integration with the EU. The EU can offer a more binding and more credible road map than the WTO. Financial and technical assistance from the EU is available to ease the process of transition and the adoption of EU norms. An agreement with the EU is not a panacea either, however. In many dimensions an agreement will only require non-discrimination or national treatment, i.e., the obligation not to discriminate between foreign (EU) and domestic firms. This will often not be enough to ensure that a MENA partner is attractive for inward FDI. It is important that existing policies that unnecessarily reduce the competitiveness of domestic firms are reduced or eliminated, including trade and other barriers to competition that affect non-EU firms. The latter is important to limit the trade diversion costs of an agreement with the EU. Indeed, governments should be strongly encouraged to reduce tariffs and other barriers to trade against the rest of the world at the same time, and at the same pace, as barriers are reduced vis-a-vis EU suppliers. The additional adjustment costs of doing so are limited, while the potential gains from liberalization will be greatly enhanced.

References

Dean, Judith, Seema Desai and James Riedel. 1994. *Trade Policy Reform in Developing Countries since 1985: A Review of the Evidence*. Discussion Paper 267. Washington D.C.: The World Bank.

Goldin, Ian and Mylene Kherallah. 1994. "The Uruguay Round and International Trade in Agricultural Products: Implications for Arab Countries," presented at the 7th joint seminar of the Arab Fund for Economic and Social Development and the Arab Monetary Fund, Kuwait, January 17-18, 1995.

Harrison, Glenn, Thomas Rutherford and David Tarr. 1995. "Quantifying the Uruguay Round," in Will Martin and Alan Winters (eds.), *The Uruguay Round and the Developing Economies*. World Bank, forthcoming.

Hoekman, Bernard. 1995a. *Trade Laws and Institutions: Good Practices and the World Trade Organization*. Discussion Paper 282. Washington D.C.: The World Bank.

Hoekman, Bernard. 1995b. "Tentative First Steps: An Assessment of the Uruguay Round Agreement on Services," CEPR Discussion Paper No. 1150.

Hoekman, Bernard and Carlos Primo-Braga. 1995. "Trade in Services, the GATS, and the Arab Countries," presented at the 7th joint seminar of the Arab Fund for Economic and Social Development and the Arab Monetary Fund, Kuwait, January 17-18, 1995.

Kirmani, Naheed. 1994. "The Uruguay Round and International Trade in Textiles and Clothing," presented at the 7th joint seminar of the Arab Fund for Economic and Social Development and the Arab Monetary Fund, Kuwait, January 17-18, 1995.

Lahouel, Mohammed. 1995. "Competition Policies and Regulation: The Case of Tunisia," presented at a workshop on Strategic Visions for the Middle East and North Africa, Gammarth, June 9-11.

Rutherford, Thomas, E.E. Rutstrom, and David Tarr. 1993. "Morocco's Free Trade Agreement with the European Community: A Quantitative Assessment," WPS 1173, The World Bank.

Subramanian, Arvind. 1995. "Effects of the Uruguay Round on Egypt," mimeo, IMF, April 10.

World Bank. 1994. "Kingdom of Morocco--Republic of Tunisia. Export Growth: Determinants and Prospects. Report No. 12947-MNA.

World Bank. 1995a. *Global Economic Prospects and the Developing Economies*. Washington D.C.: The World Bank.

World Bank. 1995b. "Lebanon--Achieving Competitiveness in A Global Economy. Report No. 13956-LE.

Zarrouk, Jamal. 1994. "Policy Implications of the Uruguay Round for the Arab Countries," presented at the 7th joint seminar of the Arab Fund for Economic and Social Development and the Arab Monetary Fund, Kuwait, January 17-18, 1995.

Annex Table 1: Average Unweighted Tariffs of Countries Undertaking Liberalization Efforts, mid-1980s and early 1990s

Country	Applied: Mid-1980s	Applied: Early 1990s	Post Uruguay Round Binding
Bangladesh (1989, 1993)	94.0	50.0	NA
India (1990, 1993)	128.0	71.0	52.6
Pakistan (1987, 1992)	68.9	64.8	NA
Sri Lanka (1985, 1992)	31.0	25.0	28.3
Cote D'Ivoire (1984, 1989)	26.0	33.0	NA
Nigeria (1984, 1990)	35.0	32.7	NA
Argentina (1988, 1992)	29.4	12.2	20.3
Brazil (1987, 1992)	51.0	21.0	26.8
Chile (1984, 1991)*	15.0	11.0	20.0
Colombia (1984, 1992)	61.0	12.0	11.8
Costa Rica (1985, 1992)	53.0	15.0	NA
Mexico (1986, 1991)	22.6	13.1	13.7
Peru (1984, 1992)	27.0	17.0	26.8
Venezuela (1989, 1991)	37.0	19.0	15.5
China (1986, 1992)	38.1	43.0	....
Indonesia (1985, 1990)	27.0	22.0	21.3
South Korea (1984, 1992)	24.0	10.1	12.7
Malaysia (1985, 1993)	NA	14.0	15.7
Egypt (1989, 1993)	47.0	34.0	36.1
Jordan (1987, 1994)	33.4	30.5	...
Morocco (1983, 1990)	36.1	23.4	NA
Tunisia (1987, 1990)	32.5	28.5	29.7

* Uniform rates.
NA Not available.
... Not a GATT member as of April 1995.
Dates in parentheses refer to the first 2 columns. Post-Uruguay round refers to the date of full implementation of Uruguay round tariff commitments, generally January 1999.

Source: Dean et al. (1994) and World Bank.

Annex Table 2: Share of Textiles and Clothing in Total Exports to EU 1989 - 1993 (ECU million and percentage)

	1989		1993	
	Value	Share	Value	Share
CEECs	1,278	10.7	3,325	16.6
MENA	1,946	7.3	3,571	12.1
Turkey	1,813	32.9	2,948	45.1
Morocco	829	31.1	1,394	43.7
Tunisia	733	37.1	1,360	54.7
Egypt	52	2.1	151	6.8
Jordan	1.6	1.8	6.4	2.4
Lebanon	16	16.1	24	36.3
Israel	257	8.5	358	10.7
UAE	49	3.2	219	26.4
China	1,623	17.9	4,133	21.2
Memo:				
EU Imports	19,779		31,205	
MENA Share	9.8		11.4	
CEEC Share	6.5		10.7	

Annex Table 3: Exports to EU Under Outward Processing Customs Regime (ECU thousand)

	Leather products	Clothing	Clay/ Glass	Machin ery	Trans- port	Furni- ture	Total
Jordan	1	17	0	3	0	0	27
Lebanon	3	0	259	14	0	7	380
Syria	0	0	124	506	0	0	632
Tunisia	12,760	224,010	15	27,286	2,894	58	274,877
UAE	56	2,242	2,952	482	9,396	50	15,731
Morocco	13,001	169,732	2	13,328	519	554	200,922
Israel	95	42	493	1,898	104	0	4,162
Egypt	0	527	0	1,403	171	108	2,638
5 CEEC	305,478	2,409,770	13,190	396,891	70,121	166,832	3,577,955
MENA	29,516	396,747	3,845	46,665	14,950	781	503,347

Source: EU COMEXT database.

Policy Research Working Paper Series

	Title	Author	Date	Contact for paper
WPS1491	Equilibrium Incentives for Adopting Cleaner Technology Under Emissions Pricing	Peter W. Kennedy Benoit Laplante	August 1995	E. Schaper 33457
WPS1492	Trade Policies, Macroeconomic Adjustment, and Manufactured Exports: The Latin American Experience	Sarath Rajapatirana	August 1995	J. Troncoso 37826
WPS1493	Migration and the Skill Composition of the Labor Force: The Impact of Trade Liberalization in Developing Countries	Ramón López Maurice Schiff	August 1995	J. Ngaine 37947
WPS1494	Adjustment and Poverty in Mexican Agriculture: How Farmers' Wealth Affects Supply Response	Ramón López John Nash Julie Stanton	August 1995	J. Ngaine 37947
WPS1495	Raising Household Energy Prices in Poland: Who Gains? Who Loses?	Caroline L. Freund Christine I. Wallich	August 1995	G. Langton 38392
WPS1496	Reviving Project Appraisal at the World Bank	Shantayanan Devarajan Lyn Squire Sethaput Suthiwart-Narueput	August 1995	C. Bernardo 37699
WPS1497	Public Choices between Lifesaving Programs: How Inportant are Lives Saved?	Maureen L. Cropper Uma Subramanian	August 1995	A. Maranon 39074
WPS1498	Decentralized Rural Development and Enhanced Community Participation: A Case Study from Northeast Brazil	Johan van Zyl Tulio Barbosa Andrew N. Parker Loretta Sonn	August 1995	M. Williams 87297
WPS1499	The Dynamics of Poverty: Why Some People Escape from Poverty and Others Don't—An African Case Study	Christiaan Grootaert Ravi Kanbur Gi-Taik Oh	August 1995	A. Sachdeva 82717
WPS1500	Agricultural Trade Liberalization in the Uruguay Round: One Step Forward, One Step Back?	Merlinda D. Ingco	August 1995	J. Ngaine 37947
WPS1501	Are Partner-Country Statistics Useful for Estimating "Missing" Trade Data?	Alexander J. Yeats	August 1995	J. Ngaine 37947
WPS1502	Active Labor Market Policies in the OECD and in Selected Transition Economies	Hartmut Lehmann	August 1995	WDR 31393

Policy Research Working Paper Series

	Title	Author	Date	Contact for paper
WPS1503	Africa's Growth Tragedy: A Retrospective, 1960–89	William Easterly Ross Levine	August 1995	R. Martin 39120
WPS1504	Savings and Education: A Life-Cycle Model Applied to a Panel of 74 Countries	Jacques Morisset César Revoredo	August 1995	N. Cuellar 37892
WPS1505	The Cross-Section of Stock Returns: Evidence from Emerging Markets	Stijn Claessens Susmita Dasgupta Jack Glen	September 1995	M. Davis 39620
WPS1506	Restructuring Regulation of the Rail Industry for the Public Interest	Ioannis N. Kessides Robert D. Willig	September 1995	J. Dytang 37161
WPS1507	Coping with Too Much of a Good Thing: Policy Responses for Large Capital Inflows in Developing Countries	Morris Goldstein	September 1995	R. Vo 31047
WPS1508	Small and Medium-Size Enterprises in Economic Development: Possibilities for Research and Policy	Sidney G. Winter	September 1995	D. Evans 38526
WPS1509	Saving in Transition Economies: The Summary Report	Patrick Conway	September 1995	C. Bondarev 33974
WPS1510	Hungary's Bankruptcy Experience, 1992–93	Cheryl Gray Sabine Schlorke Miklos Szanyi	September 1995	G. Evans 37013
WPS1511	Default Risk and the Effective Duration of Bonds	David F. Babbel Craig Merrill William Panning	September 1995	S. Coca 37474
WPS1512	The World Bank Primer on Reinsurance	Donald A. McIsaac David F. Babbel	September 1995	P. Infante 37642
WPS1513	The World Trade Organization, the European Union, and the Arab World: Trade Policy Priorities and Pitfalls	Bernard Hoekman	September 1995	F. Hatab 35835